Canada. Dept. of Defence Production. Report.

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1965 ANNUAL REPORT

DEPARTMENT OF DEFENCE PRODUCTION · CANADA

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FIFTEENTH REPORT

of the

DEPARTMENT

of

DEFENCE

PRODUCTION

1965

Hon. C. M. DRURY, P.C., C.B.E., D.S.O., Q.C., M.P., *Minister*

G. W. HUNTER, *Deputy Minister*

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To His Excellency General The Right Honourable Georges P. Vanier, DSO, MC, CD, Governor-General and Commander-in-Chief of Canada.

MARCH 31, 1966

MAY IT PLEASE YOUR EXCELLENCY:

I have the honour to submit to Your Excellency the Report of the Department of Defence Production for the calendar year 1965.

A summary of the operations and services rendered by this Department, under their respective headings, is laid before Your Excellency.

Respectfully submitted,

Minister of Defence Production.

MARCH 31, 1966

The Honourable C. M. Drury, PC, CBE, DSO, QC, MP,
Minister of Defence Production,
Ottawa, Ontario.

DEAR SIR:

I have the honour to submit the Report of the Department of Defence Production, which covers the operations and services rendered during the calendar year 1965.

Yours faithfully,

Deputy Minister.

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Responsibilities and Organization

The Department of Defence Production was established on April 1, 1951, under the provisions of the Defence Production Act. It has exclusive authority for the procurement of the goods and services required by the Department of National Defence. In addition the Department has the responsibility for ensuring that necessary production capacity and materials are available in Canada to support the defence production program.

In support of the above two primary responsibilities and because defence procurement has an important impact on Canada's economy and international balance of payments, the Department has the responsibility for undertaking measures to encourage the development and production in Canada of defence equipment. Such measures for which the Department is responsible include defence equipment export activities, the establishment of arrangements with the United States and other friendly countries for co-operative efforts in defence industrial research, development and production, and managing the Canadian participation in the cooperative endeavours of the NATO Armaments Committee. As in previous years the Canada-United States Defence Production Sharing Program has been the most significant of such activities.

The Department provides the management and staff for the Canadian Commercial Corporation, which has the principal function of acting, on behalf of the Canadian government, as the contracting agency for foreign countries wishing to purchase defence, or other supplies and services, from Canada, on a government-to-government basis.

On September 4, 1963 the Government gave to the Department the responsibility for implementing certain recommendations of the Royal Commission on Government Organization relating to the formation of a central purchasing and supply agency. In essence this required that the existing structure of the Department was to be gradually reshaped in order to accept the function of procurement on behalf of all civilian departments and agencies other than commercially oriented Crown Corporations, and the civilian supply function.

To meet this responsibility there have been established within the Department a Canadian Government Purchasing Service, a Canadian Government Supply Service and a Canadian Government Repair Service, all of which are now functioning, and which together are being developed to form a future Department of Supply.

Canadian Government Purchasing Service

The Canadian Government Purchasing Service presently consists of 10 operational branches, the International Programs Branch, and the Canadian Commercial Corporation.

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The operational branches are:

- Aircraft
- Apparel and Textiles
- Chemicals
- Electrical and Electronics
- Food Products
- Machinery
- Materials
- Mechanical Transport
- Shipbuilding and Heavy Equipment
- Wood Products

A complete outline of the activities of each of the operational branches and the International Programs Branch is given later in this report.

Canadian Government Supply Service

The Canadian Government Supply Service now consists of six headquarters branches, a Regional Supply Centre being operated as a pilot operation in Ottawa, a system of regional purchasing offices in Canada, the United States and Europe, and lastly, the Crown Assets Disposal Corporation.

The six headquarters branches are:

- Regional Purchasing
- Warehousing and Distribution
- Specifications and Standards
- Traffic Management
- Cataloguing
- Quality Assurance

An outline of the activities of the Canadian Government Supply Service during 1965 is contained later in this report.

Canadian Government Repair Service

The Canadian Government Repair Service was established in 1965 to provide maintenance, repair and overhaul services and technical advice to federal government departments and agencies for all non-military machines, equipment and other products located in Canada.

Advisory and Service Functions

As a result of the integration of the civilian purchasing and supply functions, and in order to establish more effective advisory and service functions, a number of organizational changes were instituted during 1965.

A Contracts Approval Board, chaired by an Assistant Deputy Minister, has been established as a result of an increase in authority given to the Department for entry into contracts for civilian supplies and services.

The Financial Adviser's Branch has been renamed the Contracts Branch and has retained most of its previous responsibilities with the exception of those relating to the establishment of Departmental contract policy. A new Contract Policy

Group has been established to act in an advisory capacity with respect to the development and formulation of policies and procedures applicable to the Department's defence and civilian procurement activities.

Legal advice and services to the Department will now be provided by a Legal Adviser and staff reporting to the Deputy Minister, instead of by a Legal Branch as was previously the case.

In summary, the service and advisory functions are now performed by the Contracts Approval Board, the Contract Policy Group, the Legal Adviser and the following branches:

Comptroller
Contracts
General Services
Management Control
Management Services
Personnel

An outline of their 1965 activities is included later in this report.

Emergency Planning

The Emergency Supply Planning Branch is responsible for planning a War Supplies Agency which, in the event of a nuclear war would exercise control over the production, distribution and pricing of civil and military supplies.

Crown Companies

The following Crown Companies and Agencies report to Parliament through the Minister of Defence Production:

Canadian Arsenals Limited
Crown Assets Disposal Corporation
Polymer Corporation
Canadian Commercial Corporation

Each of these organizations accounts for its activities through its own annual report.

Canadian Government Printing Bureau

In 1964, the Canadian Government Printing Bureau was formed to be responsible for the printing functions of the former Department of Public Printing and Stationery. The responsibility for publications rests with the Queen's Printer. The General Manager of the Printing Bureau reports to the Deputy Minister of Defence Production and the Bureau issues its own annual report.

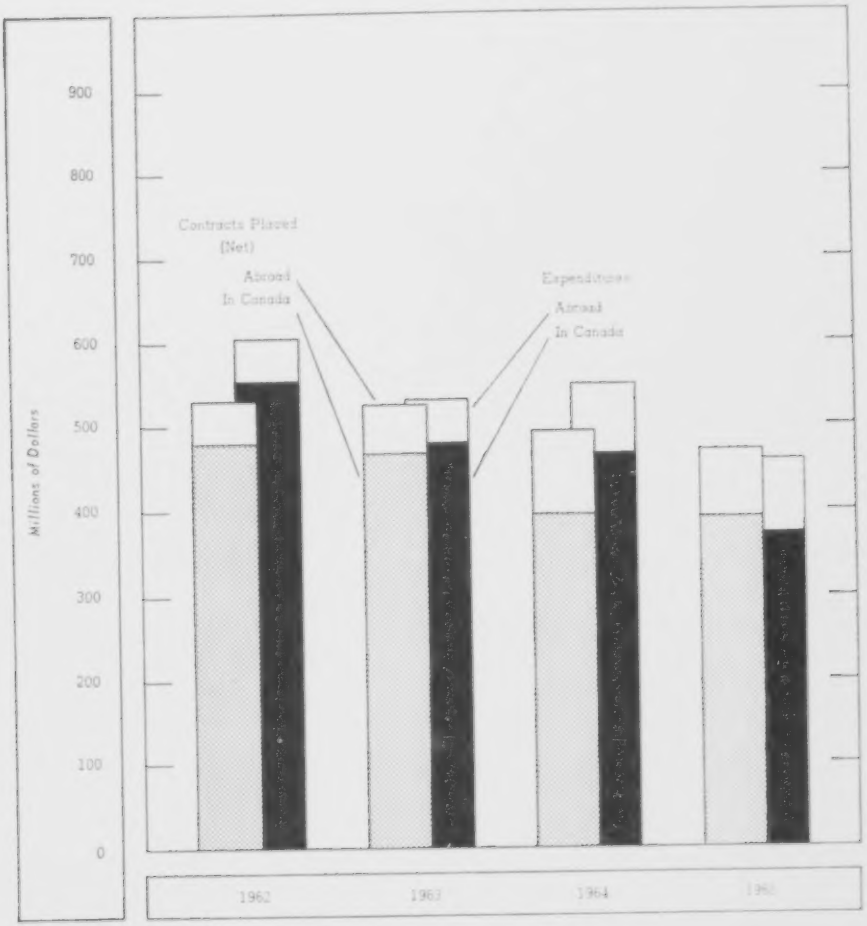
Canadian Government Purchasing Service

Defence and other Contracting, 1965

Contracts having a total net value of $713,400,000 were issued in 1965, an increase of 8.4 per cent from the total of $658,400,000 in the previous year.

The largest group of contracts, having a net value of $473,500,000 was issued on behalf of the Department of National Defence. This is 4.8 per cent less than the value of such Canadian Government defence contracts issued in 1964 and represents 66.3 per cent of the year's total contracting by the Department compared to 75.5 per cent in 1964.

Contracts Placed on Behalf of the Department of National Defence and Related Expenditures



Foreign government defence prime contracts placed in Canada through Canadian Government agencies totalled $162,200,000 almost $50,000,000 greater than the value for 1964. Contracts valued at $154,000,000 or 95.2 per cent, were placed for the United States Government.

Contracts issued against this Department's votes to assist Canadian defence industry had a net value of $1,500,000 compared to the 1964 figure of $700,000. These figures do not include the value of contracts issued to sustain Canadian industrial technological capability since control of this latter vote was transferred to the Department of Industry effective April 1, 1964.

Contracts let for Canadian external aid programs rose by 50 per cent from $13,100,000 in 1964 to $19,600,000 in 1965.

The value of contracts issued in behalf of other Canadian government departments and agencies ($56,600,000) accounted for eight per cent of the Department's total contracting during the year. This compares with a total value of $26,200,000 in 1964, which represented four per cent of the total procurement initiated by this Department.

These figures, and those contained in appendix F of this Report, relate only to prime contracts awarded by the Department of Defence Production and its associated Crown companies, Canadian Commercial Corporation and, up to March 31, 1965, for Defence Construction (1951) Limited. They do not include prime contracts placed directly with Canadian contractors by foreign governments and subcontracts placed in Canada by United States and other foreign defence contractors.

Further reference to these direct prime contracts and subcontracts, which are reported to the Department by Canadian companies, is contained in the section of this report covering the defence production sharing program and overseas defence exports.

Integration of Civilian Purchasing

With regard to the integration of the civilian purchase function, significant progress has been made since 1964, when the purchasing functions of the Department of Public Printing and Stationery were integrated with this Department. During 1965, the Department of Public Works' purchasing responsibilities in regard to furniture, janitorial supplies and maintenance, repair and operating supplies in Ottawa, Toronto and Montreal, were transferred to the Department of Defence Production. The personnel associated with these functions were also transferred to, and integrated into the Department. A similar partial transfer of purchasing functions has been entered into with the Department of Transport. However, in this case integration of staff will not occur until 1966.

In accordance with the over-all plan and schedule for the orderly transfer of the purchasing functions of other government departments and agencies during the next few years, the purchasing functions hitherto undertaken by the Department of Citizenship and Immigration and those undertaken by the Department of Northern Affairs and National Resources for units in the North West Territories, were transferred to DDP. Negotiations are under way to transfer the additional

purchasing responsibilities from Northern Affairs and National Resources. These negotiations will lead to the complete transfer, during 1966, of all the purchasing functions of that department.

Similar consultations are now being held with the Departments of Veterans Affairs and National Health and Welfare, and it is expected that the takeover of those purchasing responsibilities will be completed in early 1966.

Aircraft Branch

In 1965 the Aircraft Branch issued contracts totalling $225,500,000 compared to $183,300,000 in 1964. Of the 1965 amount, $125,000,000 was for the Canadian Forces for aircraft, aircraft equipment and related services. Exports of defence materials to foreign governments accounted for contracts valued at $99,600,000. Contracts for capital assistance, defence industry modernization and qualification of sources amounted to $900,000.

Repair and overhaul contracts placed and administered by the Branch on behalf of the Canadian Armed Forces totalled 322 valued at $67,300,000. These were distributed among 47 Canadian, six United States and five United Kingdom facilities. In addition, nine contracts valued at $1,000,000 issued to five Canadian facilities were negotiated and administered on behalf of the Canadian Commercial Corporation.

Following selection of the Northrop F-5 aircraft as the new tactical fighter for the RCAF, negotiations were opened with Northrop for reconfiguration and licence agreements to allow manufacture in Canada of CF-5A tactical fighter and CF-5D fighter trainer aircraft. Canadair was selected to manufacture this aircraft in Canada and production is scheduled to begin in 1966.

Production of the CT-114 tutor primary trainer continued, 74 aircraft being completed during the year. The last of the 190 aircraft on order is to be delivered by August 1966. Production of F-104G aircraft from the Canada-United States Mutual Aid Program was completed late in the year. Delivery of spare parts continues.

Assembly of CHSS-2 helicopters for the Royal Canadian Navy progressed satisfactorily. Procurement of a further five helicopters ordered for the Canadian Army was completed during the year.

Manufacture of J79-11A turbo-jet engines for the MAP F-104G program was completed in November. Delivery of the J85-CAN-40 engines ordered for use in the CT-114 tutor aircraft was completed in September. Deliveries of the T58-GE-8B turbo-shaft engine for the Canadian Armed Forces Helicopter Program amounted to 31 engines during the year and were ahead of schedule.

Arrangements are being made for a licence and technical assistance agreement for production in Canada of J85-15 gas turbine engines required for the CF-116 (CF-5) Tactical Fighter Aircraft Program. It is anticipated that a minimum of 250 engines will be required. Arrangements were made with the United States government to complete development and qualification of the engine, using that government's facilities.

A further 26 Caribou aircraft were produced during the year for foreign customers. Nine were delivered to the U.S. Army, four to Zambia, one to Uganda,

seven to the Royal Australian Air Force, completing the order for 25, one to Ansett Airways (Australia), four to Kenya, and one to Air Asia, Taiwan.

An order was placed for 15 CF-115 Buffalo aircraft for the Royal Canadian Air Force, with deliveries scheduled during 1967 and 1968.

Further progress was made with the development of the FHE-400 hydrofoil craft for the Royal Canadian Navy. Initial trials are expected to start late in the summer of 1966.

Apparel and Textiles Branch

As the successor to the former Clothing and Textiles Branch, the Apparel and Textiles Branch assumed during 1965 the responsibility for purchasing on behalf of the Department of National Defence items of outer and inner clothing, fabrics, canvas goods, bedding, flags, towels and related items.

In addition it assumed in 1965 increasing responsibility for civil department requirements for goods and services, as a result of the formation of the Canadian Government Supply Service.

During 1965, 1,200 contracts totalling $18,500,000 were let, an increase of approximately $5,000,000 over 1964.

Contracts for major items of sized clothing and footwear were let on an annual basis, with quarterly deliveries made in accordance with the quarterly quantities and sizes required by the Department of National Defence.

A contract valued at $1,387,000 was let during 1965 for the supply of 40,000 sets of the newly developed load carrying equipment designed for use in conjunction with the new combat uniform. This equipment replaces the conventional web equipment and lightens considerably the carrying load. The reduction in weight was brought about by the use of a lightweight waterproof fabric; use of velcro closures in lieu of the old style metal buckles and hooks and nylon moulded hardware instead of metal. Production will extend over two years.

In co-operation with the Canadian Centennial Commission, the Apparel and Textiles Branch is engaged in the design and procurement of uniforms to be used in the coast-to-coast military tattoo which will be staged in conjunction with the Canadian Centennial in 1967.

Chemicals Branch

The Chemicals Branch was responsible for the procurement of petroleum products, heating fuels, pharmaceuticals, dental supplies, photographic stores, cleaning materials, paints and related coatings, rubber and plastic products, research and develpment services and chemical warfare items.

During 1965, 4,995 contractual documents having a value of $56,200,000 were issued. This represents an increase of $12,000,000 over the 1964 expenditure for the same period. Civilian procurement related to the Canadian Government Supply Service accounted for approximately 11 per cent of the totals of contractual documents issued.

Participation in the Canada-United States production and development sharing programs included the promotion of protective equipment and chemicals required by NATO countries. Contracts were issued for various petroleum, rubber and plastic products.

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An agreement was entered into on behalf of the Department of Public Works for the leasing of Crown-owned facilities at Fort Churchill, Manitoba, for the storage of petroleum products. Purchases of petroleum products for a one-year operation totalled $748,000.

To effect economical supply and control, a national credit card system for the purchase of gasoline, oil, lubricating and minor road repairs through service stations is being implemented. This system will be used by 25 departments and agencies operating approximately 7,000 vehicles. It is estimated that resultant savings could exceed $150,000 annually.

In 1965 External Aid procurement for India, Pakistan, Ghana and British West Indies involved such items as sulphur, ammonium sulphate, fire hose, paint and related commodities at an estimated cost of $3,780,000.

Electrical and Electronics Branch

During 1965 contracts valued at $102,400,000 were placed by the Electrical and Electronics Branch to meet Canadian defence requirements. This is an increase of approximately $6,300,000 over 1964.

Contracts were also placed on behalf of other Canadian government departments to the value of approximately $15,800,000, including External Aid at $5,100,000. In addition, contracts placed by the Branch for the defence requirements of other governments during 1964 had a net value of $37,300,000.

During the past year a major sonar development program was continued which incorporates the use of advanced technology aimed at improved reliability, as well as weight and cost reduction.

A contract has been awarded for the provision of a plan for the consolidation, improvement and development of all national defence communications requirements. Development and production of electronic counter measures equipment for Canadian and U.S. armed forces proceeded and contracts were placed for radiation detection equipment for the Emergency Measures Organization and also for the U.S. armed forces.

Production of vehicle navigation aids continued with evaluation quantities sold to several NATO allies. Development has continued on the fighting equipment for the RCN Hydrofoil and procurement of the electronic equipment for the initial installation is under way. Contractual action has been initiated for an advanced information system for other naval vessels. The Alouette/ISIS Program continued on schedule. During November 1965, Alouette II was successfully launched and is functioning as expected.

The Branch undertook procurement for a major program to update navigation equipment on transport, helicopter, and fixed wing Anti-Submarine Warfare (ASW) aircraft carried out by the Department of National Defence. In addition, the ASW aircraft are being fitted with new submarine detection equipment. Contracts for the development and production of advanced airborne navigation equipment and crash position indicators were awarded to Canadian industry on behalf of the U.S. Government. Contracts for Canadian manufactured Doppler navigation equipment for allied governments continue to be awarded.

As a result of the selection by the Department of National Defence of the new Tactical Aircraft CF-5, procurement planning is proceeding for the required avionics equipment.

Agreements were made by the Branch with the U.S. Government whereby U.S. cross-border leased communication circuits and associated terminal equipment requirements would be contracted for by Canada. This will allow both the U.S. and Canadian governments to take advantage of substantial savings through the volume discounts offered by the telephone companies.

Rearrangement of the Air Defence Command communication system was begun in 1965 and contracts have been placed with the telephone industry for a new switching environment which will provide a flexible communication system across Canada.

Food Products Branch

During the year the Food Products Branch issued contractual documents involving an expenditure of $7,500,000.

The principal role of the Branch is the procurement of non-perishable food items and contractual arrangements of food services.

Under the auspices of the World Food Program, flour, wheat, oats, dried fish, egg powder, milk powder, butter oil, processed cheese and butter were procured for the following countries, Ceylon, Ethiopia, British Guiana, Bolivia, Brazil, Costa Rica, Basutoland, Dominican Republic, Jordan, Jamaica, Formosa, Korea, Beirut, Syria, Viet Nam.

A continuing review is being carried out in conjunction with industry and other government departments in the field of specifications and new products with a view to incorporating the many technological and packaging changes which have been introduced.

It is expected that these studies will result in more efficient feeding and savings in expenditure.

Machinery Branch

The Branch is responsible for procurement and production sharing activities in the field of armament and related aerospace systems, weapons and ammunition. Procurement work also includes production machinery, office equipment and a wide range of metal products for the Department of National Defence, External Aid projects, and other departments using the Canadian Government Supply Service.

During the year, contracting for armament equipment and general supplies for Canadian defence requirements by the Branch amounted to $24,100,000. Contracts for civilian procurement related to the Canadian Government Supply Service amounted to $5,500,000. Orders for a further $17,400,000 were placed with Canadian firms by the Branch for U.S. armament requirements such as impact extrusions, plastic moulding, ferrous casting, quality machine parts, rocket grains, propellants and explosives, including a substantial contract for 2.75″ rocket warhead castings. Canadian armament purchases from foreign countries amounted to $14,800,000.

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During the year, research and development projects were undertaken for the Canadian armed services and for possible sales to NATO allies. These include a launcher for a United States missile system, a light gas gun, the joint U.S.-Canada High Altitude Research Program, battlefield surveillance system, an aqua-jet propulsion system, and modifications to Canadian-built torpedoes to provide greatly increased efficiency in shallow water.

Several activities were consolidated in rocket development and production work, including production of jet assisted takeoff units, negotiating complete United States-Canada development of a meteorological rocket system and arranging for source approval of a new high impulse case propellant.

Project definition contracts have been let for a possible missile defence system for the Destroyer Helicopter Program. The Branch has also been evaluating the possibilities for Canadian production of new torpedoes and other systems of foreign design that are required for the Canadian Armed Forces.

In the weapons and ammunition field, the Norway-Canada joint production program of a light anti-weapon advanced on schedule. Negotiations are now being conducted for sales to other NATO countries. Major items of production included torpedoes, anti-submarine projectiles and devices, aircraft bombs, anti-tank and small arms ammunition, rocket launchers and pyrotechnic stores.

Purchases of various types of machinery were carried out for the External Aid Program to equip technical schools in Malaysia and Jamaica. A new procurement procedure on a tri-service basis for the purchase of machine tools is being established to decrease procurement time and expand competition.

Materials Branch

The Materials Branch was responsible for the procurement of ferrous, non-ferrous and industrial materials in primary, semi-fabricated and fabricated forms for the Department of National Defence, production sharing, External Aid projects and for civilian procurement related to the Canadian Government Supply Service.

It also had the responsibility for the government's residual strategic materials stockpile and for Canada's participation under the United States Government Defence Materials System for the assignment of priority ratings and material allocations.

During the year the Branch issued 1,763 contractual documents valued at $4,656,000. Included are 156 contracts valued at $1,638,000 covering the supply of copper tubing, brass bars, steel sheets and wire rope, placed on behalf of the United States government supply agencies.

External Aid procurement was undertaken for India, Pakistan, Ceylon, Ghana and Malaya, and involved such items as structural steel, reinforcing rod, steel pipe, asbestos pipe, glass and construction materials.

Mechanical Transport Branch

The Mechanical Transport Branch purchases commercial vehicular, construction, agricultural, warehousing and rail equipment, and also military tracked and wheeled combat vehicles. It also manages, on behalf of the Department of Industry,

development contracts for special pattern military equipment having an export market potential. The carrying out of these activities in 1965, involved the administration of some 2,000 contracts having a total value of approximately $100,000,000.

This development program includes the Go-Tract over-snow vehicle, the Gemini ground effects vehicle, the Air Transportable Maintenance Shelter and the Dynatrac Military Carrier. The latter vehicle concept has been accepted by allied military forces to the extent that a production engineering award has been received from the U.S. Army. Several hundred vehicles have been requested by the Norwegian Army and the British Army has purchased two units for trial purposes.

Several new development sharing programs were initiated during the year, including a new Armoured Reconnaissance Scout Vehicle, financed equally by Canada, the United States and Britain.

Development and production agreements were established on behalf of the Centennial Commission for components and support of the Centennial Train and Centennial Truck Trailer Road Caravans. Assistance was also provided to the Canadian Corporation of the 1967 World Exhibition (Expo '67) in the contracting for public amusement rides. In 1965 work was begun on behalf of the Department of National Defence to provide transportation for that department's special centennial year presentation, The Military Tattoo.

In the commercial equipment field, purchases by the Branch for equipment parts and associated services came to about $18,000,000.

Further steps were taken towards the centralized procurement of vehicles in 1965. The Branch assumed responsibility for the purchase of vehicles required by the RCMP and the Department of Citizenship and Immigration. Contracts for approximately 1,000 vehicles were placed on behalf on these and other civilian departments and agencies.

In addition, $1,200,000 was spent in the procurement of items being supplied under various External Aid programs. Equipment such as bituminous distributor trucks and diesel locomotives were obtained for shipment to British Guiana, swamp tractors for West Pakistan, logging tractors for Uganda, road rollers for the Republic of Ghana, dump trucks for Tanzania, and trucks to be used in conducting a geological survey in Uganda.

Several commercial purchases were also made on behalf of the U.S. Government. These included the acquisition of Canadian tracked vehicles for use in the U.S. Antarctic program and the leasing of 33 vehicles required in connection with a meteorological study being carried out in Western Canada.

Military vehicle equipment requirements for the Department of National Defence necessitated the placing of $16,000,000 worth of new contracts during 1965 and the negotiation of a further $50,000,000 worth to be awarded in 1966.

Shipbuilding and Heavy Equipment Branch

In 1965 a new procurement policy for government shipbuilding was developed. This policy, the basis of which is national competition for new construction, was announced by the Minister of Industry in July 1965.

The first of three Oberon Submarines to be acquired from the British Defence Ministry, the Ojibwa, was delivered on schedule in September 1965; the second vessel, the Onondaga, was launched in September for delivery in 1967; work on the third vessel was begun, with delivery scheduled for 1968.

The Pacific Laboratory Vessel was completed in March 1965. Tenders were called for a Naval Research Establishment vessel.

An approved requirement for two operational support ships was raised. Specifications were issued on a national basis in 1965 with tenders to be called in 1966.

A requirement for four DDH Destroyers with gas turbine propulsion systems was confirmed in 1965. It is the first time this type of propulsion has been introduced for combatant ships. The planning of the acquisition program for these vessels proceeded on schedule and it is anticipated that proposals will be invited in late 1966 or early 1967.

The conversion of ships of the St. Laurent Class proceeded in 1965; work was completed on HMCS Saguenay, HMCS Skeena, HMCS Margaree, and work on HMCS Fraser was begun.

Conversion of the Restigouche Class began with the start of work on HMCS Terra Nova. The work on the Terra Nova, the first of its class, is being performed in HMC Dockyard, Halifax. Planning proceeded for the follow ships of the Restigouche class, the conversion of which will be carried out by commercial shipyards.

Tenders were issued in 1965 for modernization and refit of the Aircraft Carrier Bonaventure, with work to begin in 1966. The repair and refit program of the fleet was continued in 1965 with approximately 76 contracts awarded to commercial yards. In 1965 tenders were invited and contracts placed for two Oceanographic Research vessels, with a third to follow.

Four External Aid projects are being administered as follows: Thaketa Bridge, Rangoon, Burma; Mutwal Fish Plant, Colombo, Ceylon; Francis Turbine for Power Station, Untru, India; Sewage Treatment Systems, Lahore, Pakistan.

A further External Aid project covering the Idikki Hydro Electric installation for India has been approved.

Production sharing activities increased during 1965 with direct and indirect contracts amounting to over $10,000.00. The principal activity in this field covered torpedo tubes for installation in U.S. nuclear submarines, components for use in catapult gear and arresting assemblies for U.S. aircraft carriers, submarine models for underwater explosion research and miscellaneous ship components for the Royal Australian and Norwegian Navies and U.S. Coast Guard Services.

Wood Products Branch

In June 1965 the purchasing function, formerly performed by the Department of Public Works, was transferred to the Wood Products Branch. Later in the year the purchasing function previously performed by the Department of Citizenship and Immigration was transfered to the Department and responsibility for the purchase of most of their commodity requirements was assigned to the Branch.

To accommodate the additional purchasing load, the Branch was reorganized into two divisions: the Printing and Stationery Division, to assume Stationery, (taken over by this Branch in October 1964) and the Furniture and Wood Division, to look after the functions formerly performed by the Department of Public Works.

As a result of these changes, the Branch now purchases commodities in the following categories: stationery, paper, printing supplies, commercial printing, school and office furniture, lumber and miscellaneous wood products.

During 1965 there was a marked increase in the number of standing offer agreements issued by the Branch. This technique allows individual civilian and military departments to draw against these agreements as required, thus achieving flexibility and faster service.

During the year the Branch issued 8,721 contractual documents valued at $17,419,000.

International Programs Branch

The International Programs Branch functions include management of the Canadian Commercial Corporation activities, co-ordination of the Department's interests in international co-operation in defence industrial research, development and production, the Canada-U.S. Defence Production Sharing Program, and overseas defence export activities. During the year, the management of External Aid supply activities was transferred to the Management Control Branch.

The Branch has an office in Washington and six field offices located in major cities of the United States to maintain liaison with U.S. defence agencies. Overseas, officers of the Branch are stationed as attaches at the Canadian Embassies in Paris, and at Bonn in the Federal Republic of Germany, and at the High Commissioner's Office in London, to assist Canadian industry to participate in European defence requirements. In addition, two officers serve on the Canadian Delegation to the North Atlantic Council in Paris.

Canadian Commercial Corporation

The International Programs Branch has general management responsibility for the Canadian Commercial Corporation, whose activities are now integrated with those of the Department. The Corporation has, however, retained its corporate identity under its president, who serves also as the Director, International Programs Branch.

During 1965 the total dollar value of business received by the Corporation from the United States' and other governments, international agencies, and departments of the Government of Canada amounted to $194,700,000. This is an increase of $68,400,000 over that received in 1964, and results from increased U.S. defence procurement and increased purchases on behalf of the External Aid Program.

Programs for Maintaining the Defence Industrial Base

Programs aimed at maintaining the defence industrial base in Canada include:

- a defence equipment development program in Canadian industry
- a defence industrial modernization program
- a strategic components sourcing program

The Defence Equipment Development Program

This program was established in 1959 to sustain the technology of the Canadian defence industry in the export field. The program supports the development of defence equipment to meet the military requirements of the U.S. and other allied governments on a cost-shared basis. From the inception of the program to the end of 1965, a total of 105 defence development projects have been initiated, resulting in a significant increase in the employment of skilled personnel in the Canadian defence industry.

Current projects include airborne and vehicular surveillance and navigation systems, short takeoff and landing (V/STOL) aircraft, gas turbine stationary and aircraft engines, submarine detection equipment, electronic hardware, off-road

vehicles, lightweight missile launchers, communications equipment, and upper-atmospheric research vehicles. In support of these projects during 1965, $22,000,000 was spent out of the Department of Industry vote provided for this purpose.

An important adjunct to the development program continues to be the Defence Industrial Research Program managed by the Defence Research Board in conjunction with the Department of Defence Production.

The Defence Industrial Modernization Program

Established in 1964, the program provides assistance in upgrading production capability to meet the high standards of quality required in defence export markets. The program has built up rapidly and during 1965 the Department approved 32 projects with a value of $3,770,000.

The Strategic Components Sourcing Program

This program ensures that wherever possible Department of National Defence requirements for component parts and materials are met in Canada. Expenditures in this program during 1965 amounted to $383,000. However, as Canada increasingly standardizes, with her allies, components for defence equipment, the objectives of this program are now more closely related to those of the defence industrial modernization program. Consequently, a consolidation of these two programs is planned for 1966.

Canada-United States Defence Production Sharing

The Canada-United States Production Sharing Program aims at the optimum utilization of the North American defence industrial base. It is intended that reciprocal procurement of items of mutual defence interest will be maintained in rough balance at the highest practicable level.

In 1965, U.S. production sharing procurement in Canada reached a new high of $259,500,000 in terms of contracts placed. Total U.S. production sharing procurement in Canada since the start of the program in 1959 reached $1,174,200,000. Comparable figures for Canadian production sharing procurement in the United States were $130,100,000 in 1965 and $981,600,000 for the seven-year period. The cumulative seven-year cross-border balance stood at $192,600,000 in favour of Canada at the end of 1965.

These statistics for defence production sharing activity between Canada and the United States are acquired on the basis of contracts placed for such items as applied research and development, pre-production, production, licence agreements and technical assistance. The program does not include "off-the-shelf" general procurement, construction, basic raw materials, fuels and lubricants, or service. Thus, it is not practical to compare figures measuring the Defence Production Sharing Program, which include subcontracts as well as prime contracts, with data in other sections of this report which relate only to the prime contracting and CCC procurement for which the Department is responsible.

Support of the two governments for the Production Sharing Program was strengthened through meetings of the senior committee of officials responsible for the program, as well as various working groups charged with specific areas of

interest. During the year, the United States Defence Supply Agency established a Defence Contract Administration Services office in Ottawa to assist in the administration of U.S. Department of Defense contracts in Canada.

Continuing close co-operation for defence production sharing purposes was maintained with other departments of the Canadian Government, particularly with the Departments of National Defence, External Affairs, Finance, Industry and Trade and Commerce. In collaboration with the Department of Trade and Commerce, DDP representatives attended several United States trade fairs having defence aspects, to publicize the Production Sharing Program to United States industry.

Day-to-day contact by the production branches of the Department with Canadian defence industries maintained and strengthened relationships, and briefings were given to defence industry officials on the opportunities and problems involved in selling in the United States defence market.

Defence Development Co-operation Programs

International defence development co-operation such as that involved in the Canada-United States Development Sharing Program is sponsored by the Department to stimulate defence equipment development in Canadian industry by enabling companies to undertake research and development on behalf of the United States or other allied armed forces.

Financing is carried out on a cost shared basis between the governments and industries concerned. Total new commitment from all sources in 1965 amounted to $46,000,000, bringing the total since 1959 to $190,000,000. It is significant that the level of financial commitment by the government has attracted comparable commitments on the part of Canadian industry and allied governments. Various equipments under development are attracting the interest and support of an increasing number of allied countries.

Overseas Defence Exports

The interdependence of allied countries and the necessity for close collaboration in equipment development and production are being increasingly recognized. During 1965, the Department further intensified its effort to establish co-operative arrangements with Canada's NATO partners and other friendly countries.

The Anglo-Canadian Committee on Co-operation in Defence Research, Development and Production held its fourth meeting in Ottawa in 1965. Arrangements have been made to examine present and future military requirements of the two countries to determine possibilities for joint development of military equipment.

The Franco-Canadian Committee on Co-operation in Defence Research, Development and Production was established in 1965. A review of present and future Canadian and French military requirements is proceeding to ascertain areas for active co-operation.

During the year, meetings were also held in the Federal Republic of Germany to further the understanding with that country regarding joint equipment programs. As a result, the Federal Republic joined Canada and Britain in the development of a Reconnaissance Drone, contributing $10,000,000 to this project. The Federal Republic is also currently examining a number of Canadian developments for possible introduction into the West German armed forces.

Because of this increased emphasis on international co-operation, departmental officers have visited a number of other European countries, as well as Australia and New Zealand, to develop further opportunities for closer collaboration and to survey potential defence export markets. Defence procurement missions from Europe, Asia, Australia and New Zealand visited Canada during the year.

Canadian industry was further informed of opportunities for participating in the defence equipment programs of other countries through a briefing in Ottawa in June 1965, by departmental field officers, attended by over 100 Canadian industrialists. Also, publications illustrating the defence equipment capabilities available in Canada were widely distributed in overseas countries.

In terms of contracts placed by or on behalf of overseas defence agencies for military requirements, total overseas defence export business in 1965 amounted to about $68,000,000, an increase of some $8,000,000 over 1964. Eighty Canadian firms participated, exporting to 43 foreign countries (excluding the United States).

With a view to improved analysis of the trend of exports from the Canadian defence industrial base, statistics were compiled in 1965 to measure the volume of exports to overseas countries which contribute to the scientific capabilities of the Canadian defence industry, whether or not the end product is of an obvious military nature or the overseas customer is an identifiable defence agency. Dominion Bureau of Statistics export summaries serve as the major source of data. On this basis, overseas exports from Canadian defence industry in 1965 is estimated at $155,000,000. This figure is based on shipments made rather than contracts placed.

NATO Research Development and Production

In 1965, as in the past, the department participated in many of the NATO Armaments Committee working groups. The objective is to stimulate co-operation in defence research, development and production (RDP) within NATO, with a view to the establishment of joint development and production programs. One of the co-operative projects, in which Canada is a participant, is the production of the M72 light anti-tank weapon. Demonstrations of this equipment to other NATO countries are planned to take place in Norway early in 1966.

During 1965, the NATO Secretary General established an exploratory group to study and report on methods by which NATO co-operation in research, development and production of common military requirements could be substantially improved. This department is actively co-operating with the Department of National Defence in the preparation of the report by the group which is expected to recommend changes in the present NATO mechanism for handling co-operative equipment programs.

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NATO Infrastructure

The approved NATO common infrastructure program to date amounts to over $3,500,000,000. Canada's commitments to this program exceed $200,000,000. The Department is encouraging Canadian industry participation by the dissemination of bidding information as well as giving such guidance as may from time to time be requested by interested Canadian firms. Departmental officials stationed in certain NATO host country capitals work closely with commercial attachés and other embassy officials to facilitate participation by Canadian industry.

Canadian Government Supply Service

The initial phase in the organization of a Canadian Government Supply Service was completed in 1965. It entailed the establishment of a basic organization of six headquarters branches whose specialized technical staff will engage in research and policy formulation in cataloguing, specifications and standards, regional purchasing, warehousing and distribution, traffic management and quality assurance.

The headquarters branches will ensure that the Canadian Government Supply Service takes full advantage of the most up-to-date procedures, methods, techniques and equipment. This means an effective system of identification and classification of items, the preparation of specifications and the establishment of standards for the most commonly used items as well as the determination of the most economical purchasing methods.

The system must also embody the latest warehousing techniques, an efficient control of transportation costs and the assurance that the items that are purchased for the government departments are of acceptable quality.

In 1965, operations began at No. 1 Supply Centre, Capital Region, in Ottawa. At present, operations are limited to those items which were previously supplied through the Department of Public Printing and Stationery and the Department of Public Works.

It is intended to operate the No. 1 Supply Centre as a pilot operation in order to develop the inter-relationship that must exist between the headquarters branches and the Supply Centre.

Regional Purchasing Branch

The Regional Purchasing Branch has been formed around the existing district office purchasing organization which is made up of 14 offices across Canada, as well as offices in Great Britain, France, Germany and the United States. The 14 Regional Offices in Canada are at Victoria, Vancouver, Calgary, Edmonton, Regina, Winnipeg, Toronto, London, Ottawa, Montreal, Quebec, St. John, N.B., Halifax and St. John's, Nfld.

The branch is already providing a purchasing service to a number of civilian departments and agencies as well as continuing to service the armed forces. It has taken over purchasing for the Civil Defence College and has assumed some purchasing responsibilities for the Departments of Citizenship and Immigration, Public Works, Northern Affairs and National Resources and for the Canadian Corporation for the World Exhibition (Expo '67).

Warehousing and Distribution Branch

The Warehousing and Distribution Branch will determine the means by which the supply activities of civil departments and agencies, other than commercially oriented Crown corporations, can gradually be integrated into the Canadian Government Supply Service, in order that centralization of materials management can be effected. The Branch will establish operating policies through which the CGSS Regional Supply Centres will provide warehousing and distribution services to the civil departments and agencies.

Cataloguing Branch

The Cataloguing Branch is being organized to provide the necessary support service for materiel management in all government departments other than military. The Branch program includes the development of uniform supply language with the objective of a single name, classification and stock number for each unique item managed under the NATO cataloguing system, which is also used by our armed services.

Specifications and Standards Branch

On April 1, 1965, the staff serving as the secretariat of the Canadian Government Specifications Board was transferred from the National Research Council to the Department of Defence Production. The Specifications and Standards Branch of the Canadian Government Supply Service is being formed around this group with the incorporation of the forms co-ordinating and specifications personnel previously associated with Public Printing and Stationery.

Traffic Management Branch

The Traffic Management Branch established in 1964, is now staffed to provide comprehensive traffic management services to the Canadian Government Supply Service and to the purchasing activities of Defence Production and the Canadian Commercial Corporation in connection with customs clearance, steamship bookings, marine insurance and rates on the movement of materiel. These services, as well as all aspects of furniture and effects and personnel movements (including negotiation of hotel rates) are available to all departments and agencies. Traffic Management Bulletins are circulated to ensure all departments are aware of current transportation activities.

Quality Assurance Branch

A Quality Assurance Branch is also in the process of formation. In June 1965 certain inspection personnel and their support staff were transferred to the Branch from Public Printing and Stationery and the Department of Public Works. Arrangements were worked out to enable these personnel to continue the services they had been providing previously until the Branch had become sufficiently operational to determine more specifically the nature and scope of its activities.

Regional Supply Centre

Within the Supply Service a number of regional supply centres will be established across Canada where the purchasing offices and warehouses will be combined. Each centre will reflect the headquarter's functions of cataloguing, specifications and standards, traffic management, quality assurance, and disposal at the regional level in order to make available the full capabilities of the Supply Centres to customer departments in the regions. Because of the concentration of federal departments in Ottawa, the Supply Centre there will probably be the largest and most important of all the Supply Centres.

When the remaining Supply Centres are established, federal departments and agencies in all areas of Canada will be served by a central purchasing agency and an integrated supply service whose aim will be to provide its customers with better service at lower cost.

Advisory and Services Functions

Canadian Government Repair Service

The Canadian Government Repair Service was established in July 1965 to provide maintenance, repair and overhaul services and technical advice to federal government departments and agencies for all non-military machines, equipment and other products located in Canada. The Office Equipment Repair Section of the Machinery Branch of this Department formed the nucleus of the Repair Service.

The formation of the Repair Service permits the Government to make the maximum use of commercial facilities, wherever it is the most economical and practical way of accomplishing repairs to equipment. Expenditures for the repair of office machines and equipment in 1965 amounted to $820,000, 50 percent of which represented the cost of contracts with commercial facilities.

Comptroller's Branch

During 1965 the Comptroller's Branch provided financial services to the Departments of Defence Production and Industry, the Canadian Commercial Corporation, and other units of government reporting to the Minister requiring such services.

The services took the form of financial planning, accounting, financial control, and the provision of management reports designed to assist management in meeting planned objectives, measuring performance, and taking corrective action. It included also the development, implementation, and operation of the general and cost accounting and financial control used by the Canadian Government Supply Service.

Complete accounting records, based as far as possible on commercial practices, were kept in respect of Parliamentary appropriations, revolving funds, other assets and liabilities which are the responsibility of the Minister, and the Canadian Commercial Corporation.

A central inventory record was maintained in respect of Crown-owned buildings and equipment held by private contractors, as well as DND equipment loaned to contractors through DDP. The Branch also levied and collected rentals on Crown-owned assets used for commercial work.

The work of preparing and co-ordinating the annual and supplementary estimates was done in the Comptroller's Branch, which also acted in this connection in a liaison capacity with the Treasury Board staff.

All documents involving outgoing payments were pre-audited by the Comptroller, who was responsible for the collection of accounts.

The financial position of the Department as at March 31, 1965, is shown in the Balance Sheet and related schedules given in Appendix G, duly certified and reported upon by the Auditor General.

Contracts Branch

The Contracts Branch is responsible for all phases of individual contract review to ensure that the financial terms comply with Departmental policies.

It provides counsel to procurement branches at the precontractual stage, particularly in cases where unusual interpretations of financial policy are indicated by the complexity of the procurement.

The Branch provides executive secretarial support to the Contracts Approval Board and supplements as required, submissions to the Board with comprehensive analyses of cost and profit implications.

It is responsible for post-contractual financial activities, including a review of audit reports and settlement of terminated contracts.

The Branch also reviews and recommends applications for additional capital cost allowance and capital assistance.

Contract Policy Group

The Contract Policy Group acts in an advisory capacity with respect to the development and formulation of policies and procedures applicable to the Department's defence and civilian procurement activities.

It reviews new techniques for improving contract negotiations and administration, and formulates appropriate measures for their achievement. It analyzes current and potential problem areas and develops suitable policies and procedures to ensure their resolution.

The Group examines government policy statements, statutes and regulations, advises upon their applicability to the Department's procurement activity and devises procedures for their implementation. It is also responsible for the codification and interpretation of contractual policies and procedures.

General Services Branch

The General Services Branch provides administrative services to the Department. These include communications, office stationery and supplies, mail distribution, etc.

During 1965 a number of new practices were introduced to improve these services and, in addition, improvements were made to the special services provided in support of the Department's purchasing role.

The Branch actively participated in the integration of source records from other government departments which resulted in the compilation of a comprehensive directory of potential suppliers available for Government buying. The Branch also introduced the practice of public tender opening in the shipbuilding field.

The Branch continues to participate in the adjustment and development of procedures required by the transfer and integration of the purchasing operations of civil departments and agencies into this Department. The Branch was responsible for the preparation of the Canadian Defence Products publication for the French and German markets in Europe.

The Information Division, as the communications unit of the Branch, was responsible during 1965 for the preparation and distribution of a number of informational booklets relating to the activities of various branches, for press releases concerning the day-to-day operations of the Department, and for statements and speeches by the Minister and senior officials.

The Data Processing Division, in addition to providing statistical data and processing service, acquired a computer to control transactions of the supply service of the Canadian Government. The Division provides the basic data for industrial development work by conducting import studies also.

The Industrial Security Division continued to be responsible for the security and protection of classified contracts, implementation of national and international security requirements and policies as they affect Canadian defence contracts, and the inspection and surveillance of certain plants.

The Branch is continuing its program for extending the use of the French language, particularly in those areas which bring the Department in contact with the public.

Legal Adviser

It is the responsibility of the Legal Adviser to provide legal services to all branches of the Department as well as to the Deputy Minister's Office.

During the year a chief function of the Legal Adviser was advising on the form and legal content of production and purchasing agreements between the Department and private industry covering defence supplies for the Canadian Armed Services and for other governments, agreements covering research and development by Canadian industry and agreements with the United States military departments and NATO governments.

Legal advice was furnished on a variety of matters, including assignment of contracts, title, risk, insurance, subcontracting, bankruptcy, patents, inventions, royalties, license agreements, sales taxes, customs duties, land matters and the interpretation of contracts and statutes.

The foregoing legal services were also provided to Canadian Commercial Corporation.

Management Control Branch

The Management Control Branch is responsible to senior management of the Department of Defence Production for formulating over-all objectives and policies, developing plans, and co-ordinating departmental programs and assessing progress as well as providing the detailed planning and control information for effective decision making.

The responsibilities recently added include the development of service and cost criteria for purchasing and supply, evaluating on behalf of senior management the performance of the various units of the department in achieving these criteria, maintaining effective liaison with the customer, and ensuring that action is taken to remedy any non-achievement of cost and service criteria.

These new responsibilities have been focused in a Customer Service Group which makes up the major part of the establishment of the Branch.

Management Services Branch

The Branch carries out studies, prepares recommendations for management, provides information for the operating units and assists in implementing improvements in organization, practices and procedures.

The Management Services Branch is composed of four divisions. They are: Management Analysis, whose function is to improve the operations of the Department of Defence Production and the Department of Industry by reducing costs and increasing the efficiency of departmental activities.

Purchase Research Division, which works to reduce the cost of goods and services purchased by conducting research and making recommendations regarding quantity, quality and the prices of commodities bought and stored, and the best method of supply.

Facility Evaluation, which provides timely and accurate information regarding the capabilities of Canadian suppliers for use in both purchasing and industrial development and Operations Research, which applies advanced statistical and mathematical techniques, such as simulation and linear programming in the analysis of complex operations problems.

A fifth division, the Service Division, provides clerical, typing and stenographic support for the other four.

The divisions work together and each draws upon the specialized knowledge and resources of the others.

Personnel Branch

During 1965 the emphasis in the Personnel Branch was on manpower utilization and classification revision. The staff of the Department of Defence Production increased during the year from 2,103 to 2,481.

Purchasing and supply integration involved the absorption of staff from the Departments of Public Works, Citizenship and Immigration, and Transport. Key Regional Supply Centre directors were appointed, as were specialists in warehousing and distribution, traffic management, cataloguing, and quality assurance.

The Secretariat of the Canadian Government Specifications Board was transferred from the National Research Council. Despite the tight professional labor market, a number of senior economic and industrial research advisers were recruited. Industrial design specialists were recruited internationally. Techniques were refined for the continuing recruitment of industrial development analysts and engineering procurement specialists. New appraisal programs were introduced.

Training courses designed and conducted were: orientation (for new employees); management accounting, statistics, and management reporting and controls.

Seminars and workshops were conducted in managerial skills, purchasing practices, contracting techniques and industrial orientation. Recommendations were made and assistance given in the introduction of bilingual contracting at headquarters and the Quebec regional offices. French and English language training was expanded.

Professional staff was added to the Library and plans were made to meet the mounting requirements of both departments. The Accommodation Division was set up to meet the office and equipment demands of new and reorganized units. A staff relations unit was established in preparation for the introduction of collective bargaining into the public service.

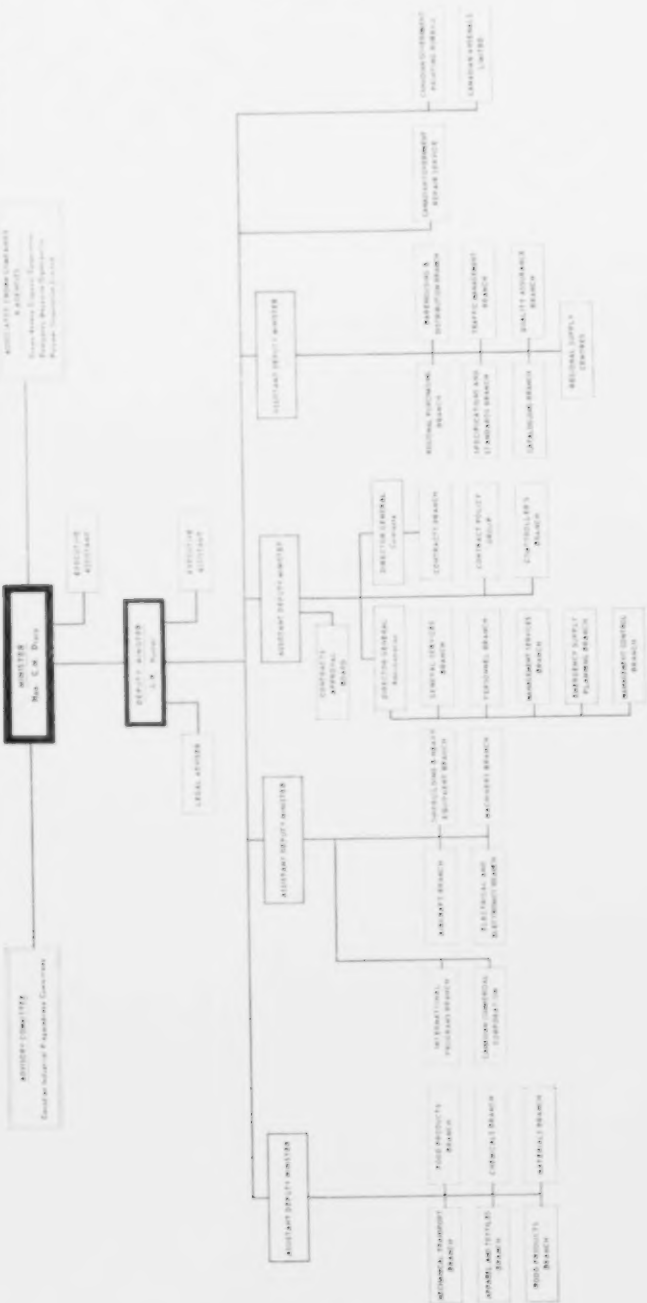
Emergency Supply Planning Branch

The Emergency Supply Planning Branch was established in May 1960 to be responsible for the peacetime planning that would be required for the introduction of a War Supplies Agency immediately a nuclear attack was made on this country.

Such an agency, brought into existence at the outbreak of such a war, would control all aspects of production, distribution and pricing of supplies for civil and military use, other than production on farms and the catching, landing and processing of fish, which would remain the responsibility of the Departments of Agriculture and Fisheries respectively.

The plan evolved by the Branch has three aspects: First, an organization for a War Supplies Agency. Second, an inventory of stocks of survival items. Third, the drafting of the legal instruments necessary to permit effective control and use of commodities and production facilities after a nuclear attack.

Appendix A



Appendix B

Senior Personnel of the Department

as at December 31, 1965

Minister

The Honourable C. M. Drury, P.C., C.B.E., D.S.O., Q.C., M.P.

Executive Assistant to the Minister ..... F. M. Wanklyn

Deputy Minister

G. W. Hunter

Assistant Deputy Minister ..... W. H. Huck
Assistant Deputy Minister ..... D. B. Mundy
Assistant Deputy Minister ..... R. M. Keith
Assistant Deputy Minister ..... B. G. Barrow
Executive Assistant to the Deputy Minister ..... W. J. Mulock

Canadian Government Purchasing Service

Director, Aircraft Branch ..... A. D. Belyea
Deputy Director, Aircraft Branch ..... W. W. Reid
Director, Electrical and Electronics Branch ..... J. S. Glassford
Deputy Director, Electrical and Electronics Branch S. I. Comach
Director, International Programs Branch ..... R. M. Trites
Deputy Director, International Programs Branch .... M. L. Card
A/Director, Machinery Branch ..... J. J. McKennirey
Deputy Director, Machinery Branch ..... J. R. Brisson
Director, Shipbuilding and Heavy Equipment Branch .... J. C. Rutledge
Deputy Director, Shipbuilding and Heavy Equipment Branch ..... F. J. Corrigan
Director, Mechanical Transport Branch ..... N. B. MacDonald
Director, General Purchasing Branch ..... D. M. Erskine

Canadian Government Supply Service

Director, Regional Purchasing Branch ..... H. G. Hunt
Director, Warehousing and Distribution Branch ..... R. C. D. Laughton
Director, Traffic Management Branch ..... G. J. Whyte
Deputy Director, Traffic Management Branch ..... J. R. Silk
A/Director, Quality Assurance Branch ..... C. L. Muir
A/Director, Specifications and Standards Branch ..... D. Wolochow
Deputy Director, Cataloguing Branch ..... C. E. Adams

Canadian Government Repair Service

General Manager	K. P. Ellis

Advisory and Service Functions

Director-General, Administration	A. R. Bailey
Director-General, Contracts Branch	J. W. Long
Comptroller	N. R. MacLean
Deputy Comptroller	T. E. Brown
Director, Contracts Authorization Division	J. D. Langley
Director, Emergency Supply Planning Branch	G. E. Woodside
Director, General Services Branch	J. J. Tevlin
Legal Adviser	F. F. Waddell
Deputy Legal Adviser	C. S. Stevenson
Director, Management Control Branch	G. E. Woodside
Director, Personnel Branch	H. R. Kotlarsky
Director, Management Services Branch	T. J. Foran

Canadian Government Printing Bureau

General Manager	C. B. Watt

Appendix C

Distribution of Departmental Staff

as of December 31, 1965

Deputy Minister's	14
Aircraft	168
Apparel and Textiles	41
Cataloguing	31
Chemicals	43
Comptroller's	115
Contracts	43
Contract Policy Group	7
Electrical and Electronics	180
Emergency Supply Planning Branch	61
Food Products	7
General Services	398
International Programs	130
Office of Legal Adviser	15
Machinery	164
Management Control	32
Management Services	39
Materials	10
Mechanical Transport	45
Personnel	123
Quality Assurance	8
Regional Purchasing	224
Regional Supply Centres	209
Shipbuilding	114
Specifications and Standards	24
Traffic Management	19
Transport Purchasing Group	92
Warehousing and Distribution	73
Wood Products	52
Grand Total	2,481

Appendix D

Crown Companies Associated with the Department of Defence Production

as at December 31, 1965

Canadian Arsenals Limited

President	J. R. Brisson
Vice-President	G. W. Hunter

Canadian Commercial Corporation

President	R. M. Trites
Secretary and Legal Adviser	F. F. Waddell
Comptroller	N. R. MacLean

Crown Assets Disposal Corporation

President	Louis Richard
Vice-President	G. W. Hunter
General Manager	D. L. Thompson
Assistant General Manager	J. M. Mackinnon
Secretary and Legal Counsel	R. LaPrairie

Polymer Corporation Limited

President and Managing Director	E. R. Rowzee
Vice-President	E. J. Buckler
Vice-President	L. D. Dougan
Vice-President	R. E. Hatch
Vice-President	I. C. Rush
Vice-President	S. Wilk
Treasurer	G. Bracewell
Secretary and Chief Legal Officer	W. J. Dyke

Appendix E

Regional Purchasing Offices and Offices Located Outside Canada

Addresses as at December 31, 1965

Regional Purchasing Offices

In Canada

St. John's, Nfld.	Room 401, Main Post Office Building, Water Street (P.O. Box 487).
Halifax, N.S.	Room 527, Federal Building, Bedford Row, (P.O. Box 1655).
Saint John, N.B.	Room 408, Sadim Building, Canterbury and Duke Streets.
Quebec, P.Q.	Gare Maritime Champlain, Chemin des Foulons.
Montreal, P.Q.	685 Cathcart Street.
Ottawa, Ont.	1010 Somerset Street West.
Toronto, Ont.	Room 1214, Mackenzie Building, 36 Adelaide Street East.
London, Ont.	388 Dundas Street, (P.O. Box 2275 - Terminal "A").
Winnipeg, Man.	Room 326 E, 344 Edmonton Street.
Regina, Sask.	Room 302, New Post Office Building, Cornwall and S. Railway Streets.
Calgary, Alta.	Room 725, Public Building, 8th Avenue and 1st Street East.
Edmonton, Alta.	Room 309, Federal Building, 107th Street and 99th Ave.
Vancouver, B.C.	Harry Stevens Building, 125E, 10th Avenue.
Victoria, B.C.	Room 318, Canada Customs House, 816 Government Street.

Outside Canada

Washington, U.S.A.	Canadian Department of Defence Production, 2450 Massachusetts Ave., (P.O. Box 4897, Cleveland Park Station), WASHINGTON 8, D.C., U.S.A.

LONDON, ENGLAND	Canadian Department of Defence Production, 1 Grosvenor Square, LONDON W. 1, England.
PARIS, FRANCE	Canadian Department of Defence Production, 1, rue Chanez, PARIS 16e, France.
KOBLENZ, Germany	Canadian Department of Defence Production, 54 Koblentz-Pfaffendorf, Emserstrasse 21, Germany.

Other Offices Outside Canada

WASHINGTON, U.S.A.	Canadian Department of Defence Production, 2450 Massachusetts Ave. (P.O. Box 4897, Cleveland Park Station), WASHINGTON 8, D.C., U.S.A.
LONDON, ENGLAND	Canadian Department of Defence Production, MacDonald House, 1 Grosvenor Square, LONDON W. 1, England.
PARIS, FRANCE Defence Production Attache	c/o Canadian Embassy, 35 avenue Montaigne, PARIS 8e, France
Office of Departmental Representative on Canadian Delegation to North Atlantic Council	Counsellor (Defence Production) Canadian Delegation to NATO, Place du Marechal de Lattre de Tassigny, PARIS 16e, France
BONN, GERMANY Defence Production Attache	c/o Canadian Embassy, Zitelmannstrasse 22, BONN, Germany
AYRSHIRE, SCOTLAND	Canadian Department of Defence Production, c/o Scottish Aviation Limited, Prestwick Airport, AYRSHIRE, Scotland

NEW YORK, N.Y.	Consul and Assistant Trade Commissioner, Department of Trade and Commerce, c/o Canadian Consulate General 680 Fifth Avenue, NEW YORK 19, N.Y., U.S.A.
DAYTON, OHIO	Canadian Department of Defence Production, MCL, DDP Wright-Patterson Air Force Base, OHIO, U.S.A.
BOSTON, MASS.	Canadian Department of Defence Production, L.G. Hanscom Field, BEDFORD, Mass., 01731, U.S.A.
PHILADELPHIA, PA.	Canadian Department of Defence Production, U.S. Army Electronics Support Command/DetA ATTN: SELSC/P/CD 225 South 18th Street, PHILADELPHIA, Pa., 19103 U.S.A.
DETROIT, MICH.	Canadian Department of Defence Production, c/o Michigan Army Missile Plant, 38111 Van Dyke, WARREN, Michigan 48090
ST. LOUIS, MO.	Canadian Department of Defence Production, AVCOM, P.O. Box 209, Main Office, ST. LOUIS, Mo., 63166, U.S.A.
LOS ANGELES, CALIF.	Canadian Department of Defence Production, c/o Los Angeles Contract Management District, 55 South Grand Avenue, PASADENA, Calif.
CHICAGO, ILL.	Canadian Consulate General, Consul and Assistant Trade Commissioner, 310 South Michigan Avenue, Suite 2000, CHICAGO 4, Ill., U.S.A.
NEW ORLEANS, LA.	Consul and Assistant Trade Commissioner, Department of Trade and Commerce, c/o Canadian Consulate General, Suite 1710, 225 Baronne Street, NEW ORLEANS 12, La., U.S.A.

Appendix F

Statistics of Defence and other Contracts and Expenditures

The statistical tables in this appendix contain information for calendar years 1964 and 1965 on contracting and related spending in connection with the Canadian defence procurement (and the construction program up to March 31, 1965) foreign government prime defence contracts placed through Canadian government agencies, and contracts placed on behalf of other Canadian government departments and agencies. These statistics measure the value of contracts as they are issued to contractors and suppliers and the value of payments as they are made to them.

The net value of contracts issued, as shown in these tables, includes the value of amendments which increased or decreased commitments under existing contracts, as well as the value of new contracts. In some cases, therefore "credit" net values are shown because decreasing amendments to contracts placed in earlier years have exceeded the value of new contracts and increasing amendments issued.

The tables are shown in pairs, with the first "a" containing data on the net value of contracts issued and the second "b" containing the value of expenditures against these contracts and against similar contracts placed in earlier years.

Tables 1a and 1b contain summary statistics relating to all contracts issued by the Department of Defence Production and its associated Crown companies, Canadian Commercial Corporation, and up to March 31, 1965, Defence Construction (1951) Limited, with the exception of those involving payments out of the Defence Production Revolving Fund. Both contract and expenditure data are broken down by the various sources that requisition and pay for the goods or services involved.

Tables 2a and 2b contain statistics related to contracting by the Department of Defence Production and, up to March 31, 1965, Defence Construction (1951) Limited, on behalf of the Department of National Defence. Payments against these contracts are made from funds appropriated by Parliament for the Department of National Defence. The figures in these tables are broken down by defence programs (as defined below) and the country in which the prime contractor is located (based on the address to which the contract is sent).

Tables 3a and 3b contain data relating to prime defence contracts placed in Canada by foreign governments through Canadian government agencies, such as Canadian Commercial Corporation. The Department of Defence Production issues most of the contracts for Canadian Commercial Corporation.

Tables 4a and 4b relate to certain activities in support of Canadian defence industry that are financed from Defence Production parliamentary appropriations.

Definitions of the Defence Procurement Programs

This classification relates all procurement, insofar as possible, to readily identifiable end-items of military and other hardware, such as ships, electronic devices, guns, types of ammunition, clothing etc. Thus a particular program includes, in addition to the end-item, those components or parts that become an integral part of the equipment, as well as the associated services such as design and development, installation, maintenance, and repair and overhaul.

AIRCRAFT: This group of projects includes complete aircraft and items to be physically incorporated into complete aircraft, such as airframes, engines, propellers, navigational and flight instruments, electrical systems and their components. Design and development services, maintenance, and repair and overhaul of aircraft are included also. Excluded are specialized accessories such as armament and communication equipment, photographic equipment, training devices and ground support equipment and associated services.

ARMAMENT: This program includes projects involving weapons such as small arms, guns, howitzers and their components; light, medium and heavy ammunition of all types; mines, depth charges and torpedoes; rockets, missiles and their launchers; and explosives and certain defence chemicals. Electronic fire control projects, however, are excluded.

ELECTRONICS: Electronics and communication equipment projects of all types are included in this program. Telephone, telegraph, radio, radar, underwater sound, fire control, flight and tactics simulation, and test equipment are included. Development, maintenance, management and transportation services associated with the procurement of electronics and communication equipment are also included. Photographic equipment and navigational and flight instrument projects are excluded.

SHIPS: This program includes destroyer escorts, frigates, minesweepers, aircraft carriers, submarines, other floating equipment and ship components such as hulls, superstructures, propulsion machinery, boilers, condensers, heating and electrical systems etc., as well as reconversion, refit and repair projects. Armament and electronic equipment projects are excluded.

TANK-AUTOMOTIVE: Included in this group of projects are tanks and vehicles of both armoured and non-armoured types and the associated services of development, maintenance and repair and overhaul. Cars, trucks, buses and components, such as tires and tubes are also included. Excluded are armament and electronic equipment projects.

FUELS AND LUBRICANTS: This program groups projects providing for supplies of petroleum, gas, coal and coke and their products; principally aviation turbine fuel and gasoline, motor vehicle gasoline and heating fuels.

CLOTHING AND EQUIPAGE: Items of personal clothing, footwear and equipment such as mess kits, steel helmets, tents, etc., are included in this program. Protective and lifesaving equipment projects are excluded.

FOOD AND SUBSISTANCE: This program includes all projects involving the supply of food, beverages and tobacco.

CONSTRUCTION: This program includes all construction contracts for building structures, runways, etc., as well as the consultant services, repairs and maintenance involved. Most of these contracts are placed by Defence Construction (1951) Limited.

CONSTRUCTION EQUIPMENT: All purchased building supplies and equipment to be physically incorporated in structures and facilities, construction machinery, mining machinery and all equipment necessary to build a structure or facility are provided for in this program. Production machinery and conveying, elevating and material handling equipment projects are excluded.

PRODUCTION EQUIPMENT: Metal working machinery, special and general purpose industrial machinery, trade and service industry equipment, agricultural machinery, etc., projects are provided for in this program. Excluded are projects involving mobile equipment, generator sets, office machinery and equipment, protective and lifesaving equipment, transportation equipment and conveying, elevating and materials handling equipment.

Table 1-a.—Net Value of All Contracts Issued

Sources for which Contracts Issued	1964	1965	% Change 1965/1964
	$000	$000	%
Department of National Defence	497,158	473,534	— 4.8
Department of Defence Production:			
Votes in support of Defence Industry	9,565(a)	1,463	— 85
Foreign Governments:			
United States	84,557	154,384	+ 82
Britain	12,018	1,843	— 85
Federal Republic of Germany	3,807	3,221	— 15
Other Governments	12,035	2,709	— 77
Canadian External Aid	13,075	19,650	+ 50
Other Government Departments and Agencies	20,171	56,610	+116
Total	658,386	713,414	+ 8.4

Table 1-b.—Expenditures Against All Contracts Issued

Sources Paying the Contracts	1964	1965	% Change 1965/1964
	$000	$000	%
Department of National Defence	546,232	462,732	— 15.3
Department of Defence Production:			
Votes in Support of Defence Industry	10,489(a)	1,656	— 84
Foreign Governments:			
United States	84,557	154,384	+ 82
Britain	1,064	1,538	+ 45
Federal Republic of Germany	5,081	4,244	— 16
Other Governments	13,898	6,574	— 53
Canadian External Aid	15,520	13,826	— 9
Other Government Departments and Agencies	25,052	42,773	+ 71
Total	756,055	628,834	— 16.8

(a) Includes $8,891 million of contracts and $5,935 million of expenditures to sustain Canadian industrial technological capability under Vote 25, transferred to Dept. of Industry under Vote 5 as of April 1, 1964.

Table 2-a.—Net Value of Canadian Government Defence Contracts Issued

1965

Program	Canada	United States	Britain	France	Other Countries	Total
	$000	$000	$000	$000	$000	$000
Aircraft	117,643	10,440	1,992	27	56	130,159
Armament	12,952	10,718	306	1,882	1,908	27,765
Electronics	87,617	14,543	359	107	245	102,871
Ships	27,035	678	23,547	—	80	51,339
Tank-automotive	8,262	8,961	68	89	166	17,547
Fuels and lubricants	41,281	11	103	343	725	42,463
Clothing and equipage	14,330	31cr	6	1	5	14,311
Food and subsistence	21,900	26	—	16	33	21,975
Construction (a)	2,208	—	—	370	48	2,626
Construction equipment	14,390	614	15	238	533	15,790
Production equipment	10,156	504	41	23	50	10,775
Other programs	33,218	1,392	71	393	839	35,913
Total	390,991	47,856	26,509	3,489	4,689	473,534

1964

Program	Canada	United States	Britain	France	Other Countries	Total
	$000	$000	$000	$000	$000	$000
Aircraft	95,930	48,592	1,514	5	9	146,050
Armament	14,603	4,079	2,285	139	128	21,234
Electronics	93,862	1,561	744	311	331	96,809
Ships	21,517	225	15,239	—	—	36,981
Tank-automotive	14,004	12,812	505	135	215	27,671
Fuels and lubricants	42,761	12	256	243	285	43,557
Clothing and equipage	10,715	327	26	2	1	11,971
Food and subsistence	22,928	34	—	10	11	22,983
Construction	30,573	—	—	1,195	1,090	32,858
Construction equipment	13,551	234	89	554	596	15,025
Production equipment	9,952	2,091	176	15	26	12,260
Other programs	27,725	983	280	828	842	30,658
Total	398,121	70,950	21,114	3,437	3,534	497,158

(a) Values to March 31, 1965 only.

Table 2-b.—Expenditures Against Canadian Government Defence Contracts

1965

Program	Canada	United States	Britain	France	Other Countries	Total
	$000	$000	$000	$000	$000	$000
Aircraft	114,196	42,981	1,694	26	56	158,954
Armament	13,661	7,386	652	663	438	22,800
Electronics	88,508	11,452	288	115	246	100,609
Ships	36,213	206	8,627	—	80	45,126
Tank-automotive	5,574	8,299	999	81	174	15,127
Fuels and lubricants	23,147	58	115	340	730	24,390
Clothing and equipage	11,816	19	14	1	3	11,853
Construction equipment	12,551	253	89	245	527	13,665
Construction (a)	6,948	—	—	211	208	7,367
Food and subsistence	21,051	27	—	16	35	21,129
Production equipment	8,494	885	40	24	51	9,492
Other	29,727	1,199	60	392	842	32,221
Total	371,886	72,765	12,578	2,114	3,390	462,732

1964

Program	Canada	United States	Britain	France	Other Countries	Total
	$000	$000	$000	$000	$000	$000
Aircraft	160,935	29,217	1,087	5	10	191,255
Armament	9,657	5,295	786	2,106	128	17,972
Electronics	102,759	9,095	519	311	403	113,086
Ships	35,574	409	12,169	—	—	48,151
Tank-automotive	12,558	11,363	1,281	135	213	25,550
Fuels and lubricants	25,167	11	122	243	272	25,815
Clothing and equipage	10,188	354	33	2	1	10,578
Construction equipment	13,012	240	46	554	566	14,413
Construction	33,250	—	—	1,312	589	35,152
Food and subsistence	21,960	33	—	10	12	22,015
Production equipment	8,672	226	158	15	25	9,096
Other	29,753	1,433	284	828	847	33,150
Total	463,485	57,675	16,484	5,522	3,066	546,232

(a) Values to March 31, 1965 only.

Table 3-a.—Net Value of Foreign Government Prime Contracts Placed in Canada

1965

Program	United States	Britain	West Germany	Other Countries	Total
	$000	$000	$000	$000	$000
Aircraft	99,376	—	512	331cr	99,556
Armament	17,062	484	2	1,125	18,673
Electronics	26,855	1,061	1,511	446	29,874
Ships	1,828	—	—	3	1,831
Fuels and lubricants	42	—	—	3	44
Tank-automotive	340	—	—	249	589
Construction (b)	505	—	—	—	505
Clothing and equipage	226	14	—	3	242
Construction equipment	4,435	—	—	319	4,755
Food and other subsistence	—	284	—	—	284
Production equipment	1,190	—	—	51	1,241
Other	2,525	(a)	1,196	841	4,562
Total	154,384	1,843	3,221	2,709	162,157

1964

Program	United States	Britain	West Germany	Other Countries	Total
	$000	$000	$000	$000	$000
Aircraft	37,103	10,000	1,812	6,023	54,938
Armament	3,517	617	—	5,664	9,798
Electronics	32,199	901	1,928	233	35,261
Ships	4,015	—	—	3	4,018
Fuels and lubricants	152	—	—	—	152
Tank-automotive	549	—	10	9	569
Construction	973	—	—	77	1,050
Clothing and equipage	69	13	—	4	86
Construction equipment	2,047	22	(a)	2	2,071
Food and other subsistence	—	465	—	—	465
Production equipment	2,871	—	1	20	2,892
Other	1,062	(a)	56	—	1,117
Total	84,557	12,018	3,807	12,035	112,417

(a) Less than $500.
(b) Values to March 31, 1965 only.

Table 3-b.—Expenditures Against Foreign Government Prime Contracts Placed in Canada

1965

Program	United States	Britain	West Germany	Other Countries	Total
	$000	$000	$000	$000	$000
Aircraft	50,108	—	995	3,646	54,749
Armament	3,297	758	12	2,426	6,493
Ships	2,088	—	—	(a)	2,088
Electronics	33,354	521	3,196	243	37,314
Tank-automotive	428	—	—	8	436
Fuels and lubricants	—	2	—	(a)	2
Clothing and equipage	111	4	—	5	120
Construction (b)	212	—	—	7	219
Construction equipment	3,137	33	(a)	64	3,234
Food and subsistence	—	220	—	—	220
Production equipment	1,484	—	1	22	1,507
Other	1,271	(a)	41	160	1,472
Total	95,491	1,538	4,244	6,581	107,854

1964

Program	United States	Britain	West Germany	Other Countries	Total
	$000	$000	$000	$000	$000
Aircraft	86,728	—	2,431	10,173	99,332
Armament	5,563	481	—	1,419	7,463
Ships	2,497	—	—	2	2,499
Electronics	36,857	200	2,650	1,973	41,680
Tank-automotive	292	—	—	—	292
Fuels and lubricants	226	—	—	—	226
Clothing and equipage	43	10	—	5	58
Construction	1,002	—	—	—	1,002
Construction equipment	3,467	—	—	2	3,469
Food and subsistence	—	372	—	1	373
Production equipment	1,471	—	—	25	1,496
Other	573	1	—	298	872
Total	138,719	1,064	5,081	13,898	158,762

(a) Less than $500.
(b) Values to March 31, 1965 only.

Table 4-a.—Net Value of Contracts to Assist Canadian Defence Industry

Category of Assistance	1964	1965
	$000	$000
Care, maintenance and custody of Crown owned standby defence assets	120	84
Capital assistance	104	58
Establishment of competitive production capacity through absorbing certain preproduction and tooling costs	44cr	Nil[1]
Defence Industry Modernization		1,232
Establishment of qualified sources for the production of component parts and materials	494	89
To sustain Canadian industrial technological capability	8,891[2]	Nil[2]
Total	9,565	1,463

Table 4-b.—Expenditures Against Contracts to Assist Canadian Defence Industry

Category of Assistance	1964	1965
	$000	$000
Care, maintenance and custody of Crown owned standby defence assets	738	269
Capital assistance	127	132
Establishment of competitive production capacity through absorbing certain preproduction and tooling costs	283[1]	Nil[1]
Defence Industry Modernization		873
Establishment of qualified sources for the production of component parts and materials	406	382
To sustain Canadian industrial technological capability	8,935[2]	—[2]
Total	10,489	1,656

[1] This Vote, Vote 5 (Primary 22) has been phased out, effective March 31, 1965.

[2] This Vote, Vote 25, was transferred to Dept. of Industry, Vote 5, April 1, 1964. (The overall net value of contracts placed in the calendar year 1964 totalled $35,133,000 while expenditures totalled $20,084,000. Comparative statistics for 1965 were $14,900,000 for contracts and $22,184,000 for expenditures).

Appendix G

Ottawa, March 1, 1966.

The Honourable C. M. Drury,
Minister of Industry,
Ottawa.

SIR,

I have examined the Balance Sheet of the Department of Defence Production and the Statement of Trading Operations of the Defence Production Revolving Fund for the year ended March 31, 1965.

The general account section of the Balance Sheet includes capital and other assets acquired through the medium of parliamentary appropriations for which the Department is accountable. In accordance with established government practice, these assets are carried at cost and no provision is made for known diminution in value of the clothing and footwear or for depreciation of the capital assets.

Included in the strategic material inventories in the Defence Production Revolving Fund section of the Balance Sheet is material in the amount of $716,840 that is not financed by the Revolving Fund and therefore is not an asset of the Fund. This material, the cost of which had been financed by parliamentary appropriations of the Department of Trade and Commerce prior to 1951-52, was taken over by the Department of Defence Production at its inception.

The Defence Production Revolving Fund, established under section 16 of the Defence Production Act, contained an accumulated surplus of $1,818,444 at March 31, 1965. In our report last year we expressed the opinion that this accumulating surplus should have been transferred from the Revolving Fund as revenue and we continue to hold this opinion. The reasons underlying this view are to be found in paragraph 60 of the Report of the Auditor General to the House of Commons for the year ended March 31, 1965.

I now report that, in my opinion, subject to the foregoing the accompanying Balance Sheet presents fairly the financial position of the Department at March 31, 1965 and the Statement of Trading Operations gives a true and fair view of the trading operations of the Defence Production Revolving Fund for the year ended on that date.

Yours faithfully,

A. M. HENDERSON,
Auditor General of Canada.

Balance Sheet as at March 31, 1965

Exhibit 1

(with comparative figures as at March 31, 1964)

GENERAL ACCOUNT

ASSETS		1965	1964
Deposits with Receiver General		$ 455,306	$ 270,761
Imprest funds		6,352	8,201
Accounts receivable		261,949	216,589
Receivable under agreements of sale of land, buildings and equipment		4,130,983	5,934,497
Loan to Township of Toronto		193,656	218,193
Working capital advances to Crown Corporations		11,000,000	13,000,000
Inventory of clothing and footwear, at cost		4,913,690	—
Investments in Crown Corporations at cost—			
Capital Stock:			
Polymer Corporation Limited	$ 30,000,000		30,000,000
Defence Construction (1951) Limited	30		30
Canadian Arsenals Limited	30		30
		30,000,060	30,000,060
Land, buildings, machinery and equipment at cost including rehabilitation and installation costs		125,738,105	158,224,459
		$ 176,700,101	$ 207,872,760

LIABILITIES AND GOVERNMENT EQUITY	1965	1964
Accounts payable and other liabilities	$ 507,164	$ 519,955
Equity of Government of Canada, Appendix I	176,192,937	207,352,805
	$ 176,700,101	$ 207,872,760

In addition to the assets listed above, the Department has recorded in its books, expenditure in the amount of $180,409,906 for production tooling, dies and jigs, title to which is vested in the Crown.

Accounts receivable			$ 14,740,837	$ 7,560,026
Progress payments and advances to suppliers			43,717,413	73,512,059
Working capital advances			330,000	1,479,000
Inventories of strategic materials, etc., at cost (market value $8,510,661)	$ 8,224,439			—
Inventory shortage, cobalt, at cost—Note 1	1,190,765			
			9,415,204	9,061,616
			$ 68,203,454	$ 91,612,701

Accounts payable and deferred liabilities			$ 2,890,076	$ 2,035,312
Progress payments from customers			32,620,849	59,813,352
Equity of Government of Canada—				
Defence Production Revolving Fund, as provided by Section 16 of the Defence Production Act (authorized $100,000,000)	$ 30,157,245			27,791,418
Surplus:				
Balance as at April 1, 1964	1,255,779			881,994
Add: Net income per Statement of Trading Operations	562,665			373,785
Balance as at March 31, 1965, Appendix H	1,818,444			1,255,779
	31,975,689			29,047,197
Advances for the purchase and storage of strategic materials authorized by parliamentary appropriations prior to the inception of the Department	716,840			716,840
			32,692,529	29,764,037
			$ 68,203,454	$ 91,612,701

Note 1—An inventory of 343,552 lbs. of refined cobalt was certified as being on hand in the custodian's warehouse at March 31, 1965, however a shortage of 315,390 lbs. costing $1,190,765 (market value $558,240) was discovered in May 1965 and is currently under investigation.

Approved on behalf of the Department

G. W. HUNTER,
Deputy Minister.

N. R. MacLEAN
Comptroller.

I have examined the above Balance Sheet and the related Statement of Trading Operations of the Defence Production Revolving Fund and have reported thereon under date of March 1, 1966, to the Minister of Industry.

A. M. Henderson,
Auditor General of Canada.

Summary of transactions in Equity of Government of Canada Account

for the year ended March 31, 1965

Balance at April 1, 1964		$ 207,352,805
Add:		
Transfer of assets from other departments and agencies	$ 6,866,924	
Transfer of liabilities to other departments	187,787	
Assets acquired from appropriations	77,549	
Sundry	13,082	
		7,145,342
		214,498,147
Deduct:		
Decrease in fixed assets in custody of Canadian Arsenals Limited	25,072,212	
Transfer of surplus assets to Crown Assets Disposal Corporation	3,780,168	
Transfer of assets to other government departments and agencies	2,875,186	
Write off of balances remaining after sale of assets	2,192,234	
Decrease in working capital advance Canadian Commercial Corporation	2,000,000	
Payments received under agreements of sale of land, buildings and equipment	1,892,022	
Assets written off due to completion of contracts, dismantling, etc.	376,423	
Receipts from sales recorded by Treasury as revenue in prior years	116,965	
		38,305,210
Balance at March 31, 1965		$ 176,192,937

Defence Production Revolving Fund

Analysis of accumulated surplus as at March 31, 1965

(with comparative figures as at March 31, 1964)

		1965	1964
Interest earned on—			
Agreement of sale of aircraft	$ 1,111,265		$ 559,893
Working capital advance for the operation of Crown-owned plant	14,434		—
		$ 1,125,699	559,893
Profit on strategic materials sold	463,839		463,449
Deduct: Warehousing and other expenses	111,988		108,457
		351,851	354,992
Profit on cloth and wool sold—operations completed		340,894	340,894
Surplus as at March 31, 1965		$ 1,818,444	$ 1,255,779

Defence Production Revolving Fund

Statement of Trading Operations for the year ended March 31, 1965

(with comparative figures for the year ended March 31, 1964)

		1965	1964
Sales at cost:			
Aircraft and components		$ 93,091,984	$ 31,471,861
Research and development		13,048,450	4,002,149
Munitions and components		1,878,591	2,633,914
Sonobuoys		75,000	1,096,875
Shipbuilding components		(171,042)	210,419
		$ 107,922,983	$ 39,415,218
Strategic materials:			
Sales		$ 34,424	188,296
Cost of sales		34,034	175,240
Gross profit		390	13,056
Interest earned on:			
Agreements of sale of aircraft	$ 551,372		365,471
Working capital advance for the operation of Crown-owned plant	14,434		—
		565,806	365,471
		566,196	378,527
Deduct: Warehousing and other expenses—strategic materials		3,531	4,742
Net Income		$ 562,665	$ 373,785

Statement of Expenditures for the year ended March 31, 1965

(with comparative figures for the year ended March 31, 1964)

	1965		1964
Vote 1 Departmental Administration			
Salaries	$12,154,348		$10,214,630
Living allowances	253,795		235,114
Travelling and removal expenses	423,490		323,404
Office Stationery, supplies and equipment	473,077		341,251
Repairs to office equipment and acquisition of spare parts	435,907		395,798
Telephones and telegrams	281,154		246,216
Professional and special services	192,152		138,560
Postage	74,692		58,529
Freight, express and cartage	148,444		139,922
Rental of office accommodation	25,292		3,467
Publication of departmental reports and other material	16,234		21,014
Materials and supplies	8,809		6,309
Acquisition or construction of equipment	14,584		
Repairs and upkeep of equipment	8,874		5,765
Sundries	37,053		23,013
Care, maintenance and custody of standby defence plants, etc.	583,180		770,094
Grants to municipalities in lieu of taxes	227,172		187,677
		$15,358,257	13,110,763
Vote 5 Establishment of production capacity and for capital assistance			
Capital Account			
Equipment	326		48,430
Accountable advances to contractors	75,398		156,457
		75,724	204,887
Income Account			
Defence Industry modernization	474,282		
Establishment of production capacity	100,000		1,003,025
		574,282	1,003,025
		650,006	1,207,912
Vote 10 Establishment of qualified sources for production of component parts and materials			
Capital account			2,000
Income account		439,209	448,000
		439,209	450,000

Vote 15 Directorate of Printing (Note 1)			
Administration	565,642		635,493
Plant equipment and replacements	335,777		82,638
		901,419	718,131
Vote 35 Defence Construction (1951) Limited			
Administration		2,200,166	2,509,825
Vote 40 Canadian Arsenals Limited			
Administration and operation		4,476,620	4,257,976
Vote 45 Canadian Arsenals Limited			
Construction and improvement	3,603		
Equipment	115,125		268,330
		118,728	268,330
Statutory—Gratuities to families of deceased personnel		1,990	
Statutory—Refund of prior year's rental revenue			36,416
Total Expenditure		$24,146,395	$22,559,353 (Note 1)

NOTE 1: The total 1963-64 expenditure shown in the 1964 Annual Report of the Department was $38,946,158 but for comparative purposes this has been reduced to $22,559,353 (the amount shown in the Public Accounts 1964-65) to reflect activities transferred to and from other departments in 1964-65: Vote 5, $18,392,664, and Minister's salary and car allowance $5,394 transferred to the Department of Industry; $1,946,288 transferred from the Department of Public Printing and Stationery (Vote 1, $635,493; Vote 5, $1,228,157; Vote 30, $82,638). In addition, the 1964 figure was reduced by $64,965 to convert expenditures from an accrual basis to a cash basis and thus correspond with the figures in the Public Accounts.

Statement of Revenue for the year ended March 31, 1965

(with comparative figures for the year ended March 31, 1965)

	1965	1964
Non-tax Revenue		
Return on investments	$ 5,593,577	$ 4,252,165
Privileges, licenses and permits		1,355
Proceeds from sales	9,865,343	12,436,072
Services and service fees	143,480	152,716
Refunds of previous years' expenditure	14,032	15,269
Miscellaneous	27,035	9,258
	15,643,467	16,866,835